



## THE DANGER OF CENTRAL BANKING DIGITAL CURRENCIES

As we shift to predominantly digital financial systems, pushes for central bank digital currencies (CBDCs) have increased. These currencies, in theory, will allow Americans without a bank to have an additional financial service, create faster payments, and preserve the dollar's status as the world's reserve currency. However, these supposed benefits are not unique to this type of currency and threaten Americans' financial privacy and security. The risks far outweigh the alleged benefits of CBDCs.<sup>1</sup>

### BACKGROUND

- **What is a CBDC?**
  - A CBDC is a digital currency issued by a country's central bank, similar to a cryptocurrency, except its value is fixed by the central bank and equivalent to the country's fiat currency.<sup>2</sup>
  - Aside from being a liability of the country's national central bank versus a commercial bank, the main difference between a CBDC and money in a checking account via debit card, Apple Pay, or Venmo is that dollars used in traditional accounts are entirely fungible and interchangeable.<sup>3</sup> Each dollar is identical.
  - CBDCs, on the other hand, are programmable, unique, and easily surveilled. This uniqueness and centralization mean they are entirely under the monitoring and control of the federal government. This includes all transactions, savings, and investments with a CBDC.<sup>4</sup>
- **Are CBDCs pending in the United States?**
  - In September 2022, the Biden administration released a framework for regulating digital assets. This included the idea of developing a CBDC for the United States.<sup>5</sup>
  - The Federal Reserve is also exploring the possibility of issuing a CBDC. While they have stated that they "ideally" would act on this with the support of Congress,<sup>6</sup> they have no constitutional authority in the matter, as our Constitution gives Congress the sole power to issue currency.<sup>7</sup>
  - The Federal Reserve will soon release its new instant payment system, "FedNow," which is not a CBDC but contains many of the concerns of CBDCs and is possibly a precursor to a Federal Reserve effort to institute one.<sup>8</sup>
    - FedNow, a government-backed system similar to private sector systems like Zelle, raises significant privacy issues. Once this is implemented, the Federal Reserve will have access to details of transactions, which could lead to fourth amendment violations of consumer data and potential exposure of this data to hacking.<sup>9</sup>
- **Dangers of CBDCs**
  - CBDCs threaten Americans' financial independence, as the government would be able to surveil the uses of a centralized digital currency.<sup>10</sup> In addition, the technology of CBDCs would allow for programmable spending, which the government could use to decide what people do with their own money.<sup>11</sup>
    - For example, limits could be set on how many digital dollars could be used to purchase products such as beef or fossil fuels or donate to religious organizations and non-profits.

- As concerns about the weaponization of government have increased, giving this sort of authority to unelected bureaucrats is dangerous. The nature of CBDCs gives the central bank absolute authority over its regulations and usage. It is plausible to imagine a situation where the government could unlawfully freeze or seize the financial resources of Americans.
  - This unfettered power over resources could lead to a situation similar to those in Operation Choke Point, an illegal initiative by the Federal Deposit Insurance Corporation (FDIC) and the Department of Justice that pressured banks to stop providing services to certain businesses, such as gun retailers and payday lenders, allegedly to prevent fraud.<sup>12</sup> The Trump administration ended Operation Choke Point in 2017.<sup>13</sup>
  - The government could wield the power of CBDCs to conduct a similar, politically motivated operation. There is a recent precedent for similar actions in Canada, when banks froze the accounts of even minor Freedom Convoy participants protesting vaccination mandates.<sup>14</sup>
- Privacy and data protection issues and financial crimes could threaten consumers' privacy rights and result in the loss of assets.<sup>15</sup> Aside from the issue of the government monitoring our data, the central storage of transaction data leaves it vulnerable to hackers and leakers. Instituting a CBDC would require consumer reliance on the government to protect our data and money from theft by cybercriminals.

## POLICY SOLUTIONS

- Congress should adopt policies that protect the privacy and security of Americans and do not allow the centralization of authority over Americans' financial decisions.
- Congress should pass H.R. 1122, the CBDC Anti-Surveillance Act,<sup>16</sup> which would prevent the efforts of unelected bureaucrats from issuing a CBDC that strips Americans of their financial privacy.<sup>17</sup>
- Congress should consider a House counterpart to S. 967, which will amend the Federal Reserve Act to prohibit the ability of Federal Reserve banks to issue CBDCs without prior congressional approval.<sup>18</sup>

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<sup>1</sup> Nicholas Anthony, Norbert Michel. Central Bank Digital Currency- The Risks and the Myths. Cato Institute.

<https://www.cato.org/sites/cato.org/files/2023-01/briefing-paper-145.pdf>

<sup>2</sup> Shobhit Seth. What Is a Central Bank Digital Currency (CBDC)? Investopedia. <https://www.investopedia.com/terms/c/central-bank-digital-currency-cbdc.asp>

<sup>3</sup> EJ Antoni. The Scary Fed Idea To Turn Your Dollars Into a Digital Power Grab. The Heritage Foundation.

<https://www.heritage.org/markets-and-finance/commentary/the-scary-fed-idea-turn-your-dollars-digital-power-grab>

<sup>4</sup> *Id.*

<sup>5</sup> Fact Sheet: White House Releases First-Ever Comprehensive Framework for Responsible Development of Digital Assets. The White House. <https://www.whitehouse.gov/briefing-room/statements-releases/2022/09/16/fact-sheet-white-house-releases-first-ever-comprehensive-framework-for-responsible-development-of-digital-assets/>

<sup>6</sup> Money and Payments: The U.S. Dollar in the Age of Digital Transformation. The Federal Reserve.

<https://www.federalreserve.gov/publications/files/money-and-payments-20220120.pdf>

<sup>7</sup> Article I, Section 8, Clause 5: Congress's Coinage Power. The United States Constitution.

[https://constitution.congress.gov/browse/essay/artI-S8-C5-1/ALDE\\_00001066/](https://constitution.congress.gov/browse/essay/artI-S8-C5-1/ALDE_00001066/)

<sup>8</sup> John Berlau. FedNow Isn't a CBDC, But Still Contains Many Dangers. Competitive Enterprise Institute. <https://cei.org/blog/fednow-isnt-a-cbdc-but-still-contains-many-dangers/>

<sup>9</sup> *Id.*

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> Norbert Michel. Newly Unsealed Documents Show Top FDIC Officials Running Operation Choke Point. The Heritage Foundation.

<https://www.heritage.org/markets-and-finance/commentary/newly-unsealed-documents-show-top-fdic-officials-running-operation>

<sup>13</sup> Victoria Guida. Justice Department to end Obama-era 'Operation Choke Point'. Politico.

<https://www.politico.com/story/2017/08/17/trump-reverses-obama-operation-chokepoint-241767>

<sup>14</sup> John Berlau. Excerpts from Austin Keynote: How CBDCs Could Be the New Operation Choke Point. Competitive Enterprise Institute.

<https://cei.org/blog/excerpts-from-austin-keynote-how-cbdc-could-be-the-new-operation-choke-point/>

<sup>15</sup> *Id.*

<sup>16</sup> H.R. 1122 – CBDC Anti-Surveillance State Act. 118<sup>th</sup> Congress. <https://www.congress.gov/bill/118th-congress/house-bill/1122>

<sup>17</sup> Emmer Leads Effort to Squash Financial Surveillance State Initiatives. U.S. Representative Tom Emmer.

<https://emmer.house.gov/2023/2/emmer-leads-effort-to-squash-financial-surveillance-state-initiatives>

<sup>18</sup> S.967 – No CBDC Act. 118<sup>th</sup> Congress. <https://www.congress.gov/bill/118th-congress/senate-bill/967>